



PPP Loans For Self Employed Individuals

PPP LOANS FOR SELF EMPLOYED INDIVIDUALS

Self employed individuals (even those without employees) **DO** qualify for a PPP and / or EIDL loan.

Self employed individuals report self employment income on either Schedule C or Form 1065 (if your self employment income is generated as the result of a partnership). In this example, we're going to prepare a PPP loan application for Jill Smith, who is a self employed hair stylist.

JILL'S FACT AND CIRCUMSTANCES

- Jill is married and files jointly with her husband Joe, who works for a local auto dealership as a technician.
- On March 24, 2020, pursuant to Governor Scott's Executive Order, Jill closed her business.
- On March 26, 2020, Jill applied for and received unemployment benefits.
- Jill received unemployment benefits from March 26, 2020 through May 29, 2020, when she re-opened her salon.
- Because of the closure and reduced re-opening capacity, Jill has suffered losses as a result of the C-19 pandemic.

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ON THE RIGHT IS A COPY OF JILL'S 2019 SCHEDULE C

After expenses, Jill earns \$48,000.00 in self employment income (Schedule C, Line 31).

Line 31 of Jill's Schedule C determines her loan amount.

In order to determine her loan amount, Jill divides the number on Line 31 of her Schedule C by 12 in order to determine her monthly self employment income. Then she multiplies this result by 2.5 in order to determine the amount of her PPP loan.

In Jill's case:

$$\$48,000 / 12 = \$4,000$$

$$\$4,000 \times 2.5 = \$10,000$$

Jill is eligible for a PPP loan of \$10,000. If Jill utilizes the funds under the prescribed rules, the entire loan amount can be forgiven.

SCHEDULE C (Form 1040 or 1040-SR)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074 2019 Attachment Sequence No. 09	
Department of the Treasury Internal Revenue Service (99)		Go to www.irs.gov/ScheduleC for instructions and the latest information. Attach to Form 1040, 1040-SR, 1040-NR, or 1041; partnerships generally must file Form 1065.			
Name of proprietor JILL SMITH		Social security number (SSN) 009-11-1100		B Enter code from instructions 8 1 2 1 1 2	
A Principal business or profession, including product or service (see instructions) SERVICE - STYLIST		C Business name, if no separate business name, leave blank. STYLES BY JILL		D Employer ID number (EIN) (see instr.)	
E Business address (including suite or room no.) 110 MAIN ST City, town or post office, state, and ZIP code ANYTOWN, VT 05611					
F Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		G Did you "materially participate" in the operation of this business during 2019? If "No," see instructions for limit on losses <input type="checkbox"/> Yes <input type="checkbox"/> No			
H If you started or acquired this business during 2019, check here <input type="checkbox"/> Yes <input type="checkbox"/> No		I Did you make any payments in 2019 that would require you to file Form(s) 1099? (see instructions) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
J If "Yes," did you or will you file required Forms 1099? <input type="checkbox"/> Yes <input type="checkbox"/> No					
Part I Income					
1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>		2 Returns and allowances		3 Subtract line 2 from line 1	
4 Cost of goods sold (from line 42)		5 Gross profit. Subtract line 4 from line 3		6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	
7 Gross income. Add lines 5 and 6		8 Advertising		9 Car and truck expenses (see instructions)	
10 Commissions and fees		11 Contract labor (see instructions)		12 Depletion	
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions)		14 Employee benefit programs (other than on line 19)		15 Insurance (other than health)	
16 Interest (see instructions): a Mortgage (paid to banks, etc.) b Other		17 Legal and professional services		18 Office expense (see instructions)	
19 Pension and profit-sharing plans		20 Rent or lease (see instructions): a Vehicles, machinery, and equipment b Other business property		21 Repairs and maintenance	
22 Supplies (not included in Part III)		23 Taxes and licenses		24 Travel and meals: a Travel b Deductible meals (see instructions)	
25 Utilities		26 Wages (less employment credits)		27a Other expenses (from line 48)	
27b Reserved for future use		28 Total expenses before expenses for business use of home. Add lines 8 through 27a		29 Tentative profit or (loss). Subtract line 28 from line 7	
30 Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30		31 Net profit or (loss). Subtract line 30 from line 29.		32 If you have a loss, check the box that describes your investment in this activity (see instructions). • If a profit, enter on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. • If you checked 32a, enter the loss on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6199. Your loss may be limited.	
31 48,000.		32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.			

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SOME COMMON QUESTIONS

Jill hasn't done her 2019 taxes yet.

- In order to apply for a PPP loan, Jill must prepare a reasonably accurate 2019 Form Schedule C to accompany her application.

Jill had her taxes prepared (or prepared them herself), but she's waiting until July 15, 2020 to file them.

- There is no requirement for Jill's 2019 tax return to be filed in order to apply for and receive a PPP loan.

Jill received unemployment benefits in 2020 as a result of the shut down.

- Receiving unemployment benefits has no affect on Jill's eligibility.

Jill does not plan on re-starting her business until June 15, 2020.

- Delaying her re-start has no effect on Jill's eligibility. A long delay period could affect forgiveness.

Where does Jill apply for a PPP loan?

- Through any participating bank or credit union (virtually all banks and credit unions participate).

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Jill has her 2019 Schedule C prepared and is ready to complete her application

Let's Review The Formula Again:

Schedule C, Line 31 - \$48,000 (Annual Income)

Calculate Average Monthly Income:

$$\$48,000 / 12 = \$4,000.00$$

Calculate Loan Amount:

$$\text{Average Monthly Income} \times 2.5$$

$$\$4,000.00 \times 2.5 = \$10,000$$

Result: Jill's PPP loan amount is \$10,000

5	Gross profit. Subtract line 4 from line 3	5	76,000.
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	76,000.
Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	1,610.
9	Car and truck expenses (see instructions)	9	1,460.
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	
14	Employee benefit programs (other than on line 19)	14	
15	Insurance (other than health)	15	300.
16	Interest (see instructions):	16	
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	300.
18	Office expense (see instructions)	18	70.
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):	20	
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	12,000.
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	9,980.
23	Taxes and licenses	23	
24	Travel and meals:	24	
a	Travel	24a	
b	Deductible meals (see instructions)	24b	
25	Utilities	25	2,280.
26	Wages (less employment credits)	26	
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28	28,000.
29	Tentative profit or (loss). Subtract line 28 from line 7	29	48,000.
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method (see instructions). Simplified method filers only: enter the total square footage of: (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	
31	Net profit or (loss). Subtract line 30 from line 29. • If a profit, enter on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32. If you have a loss, check the box that describes your investment in this activity (see instructions). • If you checked 32a, enter the loss on both Schedule 1 (Form 1040 or 1040-SR), line 3 (or Form 1040-NR, line 13) and on Schedule SE, line 2. (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198. Your loss may be limited.	31	48,000.
32		32a	<input type="checkbox"/> All investment is at risk.
		32b	<input type="checkbox"/> Some investment is not at risk.


For Paperwork Reduction Act Notice, see the separate instructions. BAA REV 05/19/20 PRO Schedule C (Form 1040 or 1040-SR) 2019

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LINK TO SBA PPP BORROWER APPLICATION:

<https://www.sba.gov/sites/default/files/2020-04/PPP%20Borrower%20Application%20Form.pdf>

PPP LOANS FOR SELF EMPLOYED INDIVIDUALS

 **Paycheck Protection Program Borrower Application Form** OMB Control No. 3245-0407 Expiration Date: 09/30/2026

Check One: <input checked="" type="checkbox"/> Sole proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> LLC <input type="checkbox"/> Independent contractor <input type="checkbox"/> Eligible self-employed individual <input type="checkbox"/> 501(c)(3) nonprofit <input type="checkbox"/> 501(c)(19) veterans organization <input type="checkbox"/> Tribal business (sec. 31(b)(2)(C) of Small Business Act) <input type="checkbox"/> Other		DBA or Tradename if Applicable	
Business Legal Name		Business Phone	
Jill Smith		Styles By Jill	
Business Address		Business TIN (EIN, SSN)	Business Phone
110 Main Street		009-11-1100	(802) 479-1111
Anytown, VT 05611		Primary Contact	Email Address
		Jill Smith	jsmith@gmail.com
Average Monthly Payroll:	\$ 4,000.00	x 2.5 + EIDL, Net of Advance (if Applicable) Equals Loan Request:	\$ 10,000.00
Purpose of the loan (select more than one):		Number of Employees: 1	
<input checked="" type="checkbox"/> Payroll <input checked="" type="checkbox"/> Lease / Mortgage Interest <input checked="" type="checkbox"/> Utilities <input type="checkbox"/> Other (explain):			

Applicant Ownership

List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address
Jill J. Smith	Owner	100.00%	009-11-1100	110 Main St. Anytown, VT 05611

If questions (1) or (2) below are answered "Yes," the loan will not be approved.

Question	Yes	No
1. Is the Applicant or any owner of the Applicant presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3. Is the Applicant or any owner of the Applicant an owner of any other business, or have common management with, any other business? If yes, list all such businesses and describe the relationship on a separate sheet identified as addendum A.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Has the Applicant received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

If questions (5) or (6) are answered "Yes," the loan will not be approved.

Question	Yes	No
5. Is the Applicant (if an individual) or any individual owning 20% or more of the equity of the Applicant subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction, or presently incarcerated, or on probation or parole? Initial here to confirm your response to question 5 → JJS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
6. Within the last 5 years, for any felony, has the Applicant (if an individual) or any owner of the Applicant 1) been convicted; 2) pleaded guilty; 3) pleaded nolo contendere; 4) been placed on pretrial diversion; or 5) been placed on any form of parole or probation (including probation before judgment)? Initial here to confirm your response to question 6 → JJS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
7. Is the United States the principal place of residence for all employees of the Applicant included in the Applicant's payroll calculation above?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8. Is the Applicant a franchise that is listed in the SBA's Franchise Directory?	<input type="checkbox"/>	<input checked="" type="checkbox"/>



Paycheck Protection Program Borrower Application Form

By Signing Below, You Make the Following Representations, Authorizations, and Certifications

CERTIFICATIONS AND AUTHORIZATIONS

I certify that:

- I have read the statements included in this form, including the Statements Required by Law and Executive Orders, and I understand them.
- The Applicant is eligible to receive a loan under the rules in effect at the time this application is submitted that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (the Paycheck Protection Program Rule).
- The Applicant (1) is an independent contractor, eligible self-employed individual, or sole proprietor or (2) employs no more than the greater of 500 or employees or, if applicable, the size standard in number of employees established by the SBA in 13 C.F.R. 121.201 for the Applicant's industry.
- I will comply, whenever applicable, with the civil rights and other limitations in this form.
- All SBA loan proceeds will be used only for business-related purposes as specified in the loan application and consistent with the Paycheck Protection Program Rule.
- To the extent feasible, I will purchase only American-made equipment and products.
- The Applicant is not engaged in any activity that is illegal under federal, state or local law.
- Any loan received by the Applicant under Section 7(b)(2) of the Small Business Act between January 31, 2020 and April 3, 2020 was for a purpose other than paying payroll costs and other allowable uses loans under the Paycheck Protection Program Rule.

For Applicants who are individuals: I authorize the SBA to request criminal record information about me from criminal justice agencies for the purpose of determining my eligibility for programs authorized by the Small Business Act, as amended.

CERTIFICATIONS

The authorized representative of the Applicant must certify in good faith to all of the below by **initialing** next to each one:

- JJS The Applicant was in operation on February 15, 2020 and had employees for whom it paid salaries and payroll taxes or paid independent contractors, as reported on Form(s) 1099-MISC.
- JJS Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.
- JJS The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.
- JJS The Applicant will provide to the Lender documentation verifying the number of full-time equivalent employees on the Applicant's payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight-week period following this loan.
- JJS I understand that loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities, and not more than 25% of the forgiven amount may be for non-payroll costs.
- JJS During the period beginning on February 15, 2020 and ending on December 31, 2020, the Applicant has not and will not receive another loan under the Paycheck Protection Program.
- JJS I further certify that the information provided in this application and the information provided in all supporting documents and forms is true and accurate in all material respects. I understand that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.
- JJS I acknowledge that the lender will confirm the eligible loan amount using required documents submitted. I understand, acknowledge and agree that the Lender can share any tax information that I have provided with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

Signature of Authorized Representative of Applicant

Jill J. Smith

Print Name

06-01-2020

Date

Owner

Title

PPP LOANS FOR SELF EMPLOYED INDIVIDUALS

Jill's PPP Loan Application Will Consist of the Following:

Pages 1 and 2 of the SBA Borrower Application Form.

A copy of Jill's 2019 Schedule C.

These are the minimum documents required. Your lender may require additional information, such as a copy of your 2019 Form 1040.

Our local lenders have been incredibly efficient and helpful in processing PPP applications.

This is not a complicated process.

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Jill is approved for her PPP loan and the lender closes the loan on June 15, 2020 and deposits \$10,000 into her bank account on June 16, 2020. **Now what?**

Jill's 24 week "forgiveness period" begins on June 16, 2020 (the day the funds were deposited into her account).

Over the next 24 weeks (six months), Jill pays \$1,000.00 per month for her booth rental and Jill takes a "draw" (her "paycheck", if you will) of \$800 per week. She also pays \$80 per month for her business phone.

Remember, Jill received a loan of \$10,000.00. Under the new rules, ***at least*** 60% (\$6,000) must be used for payroll, and ***no more*** than 40% (4,000.00) can be used for "Other Expenses", such as rent, mortgage interest or utilities.

In Jill's case, she took personal withdrawals of \$19,200 (24 weeks @ \$800 per week), paid rent of \$6,000 (six months @ \$1,000 per month) and paid \$480.00 (6 months @ \$80.00) in expenses. During the 24 week period, Jill earned \$20,000 in self employment income.

Because Jill's withdrawals as a result of self employment far exceed the 60% forgiveness threshold (\$6,000) and the overall loan amount, Jill would easily qualify for 100% forgiveness.

Jill will submit her forgiveness application to her lender following the expiration of her 24 week measurement period.

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Some Other Items To Take Note Of:

- In calculating your PPP loan amount, your self employment income is “capped” at \$100,000 per year. In other words, the maximum PPP loan for a self employed individual with no employees is \$20,833 ($\$100,000 / 12 = \$8,333$. $\$8,333 \times 2.5 = \$20,833$).
- As stated before, PPP loans are a two step process. Step One is applying for and receiving the loan. Step Two is applying for forgiveness. You cannot apply for forgiveness until the 24 week measurement period expires.
- The forgiveness documentation rules are not yet fully codified. We’re advising self employed individuals to be certain to actually write themselves weekly “draw” checks during the 24 week measurement period. Retain a copy of these checks, as they will be needed to document forgiveness. Make certain to actually pay “other expenses” during the 24 week measurement period.
- *As things stand today*, the forgiven amount of your loan is taxable income. Plan accordingly.

QUESTIONS?

Link to this presentation: <https://accd.vermont.gov/content/ppp-loans-self-employed-individuals>